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COLLEGE INC.

Investigating how Wall Street and a new breed of for-profit universities are transforming the way we think about college in America...

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Your thoughts on this new kind of American education?

Interviews

Michael Clifford, Mark DeFusco, Barmak Nassirian, Jeff Silber, Gail Mellow, Daniel Golden, Brian Mueller

Responses from the Colleges

...and other interesting readings and links

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posted may 4, 2010

COLLEGE INC.

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Even in lean times, the $400 billion business of higher education is booming. Nowhere is this more true than in one of the fastest-growing -- and most controversial -- sectors of the industry: for-profit colleges and universities that cater to non-traditional students, often confer degrees over the Internet, and, along the way, successfully capture billions of federal financial aid dollars.

In *College, Inc.*, correspondent Martin Smith investigates the promise and explosive growth of the for-profit higher education industry. Through interviews with school executives, government officials, admissions counselors, former students and industry observers, the film explores the tension between the industry -- which says it's helping an underserved student population obtain a quality education and marketable job skills -- and critics who charge

the for-profits with churning out worthless degrees that leave students with a mountain of debt.

At the center of it all stands a vulnerable population of potential students, often working adults eager for a university degree to move up the career ladder. FRONTLINE talks to a former staffer at a California-based for-profit university who says she was under pressure to sign up growing numbers of new students. "I didn't realize just how many students we were expected to recruit," says the former enrollment counselor. "They used to tell us, you know, 'Dig deep. Get to their pain. Get to what's bothering them. So, that way, you can convince them that a college degree is going to solve all their problems.'"

Graduates of another for-profit school -- a college nursing program in California -- tell FRONTLINE that they received their diplomas without ever setting foot in a hospital. Graduates at other for-profit schools report being unable to find a job, or make their student loan payments, because their degree was perceived to be of little worth by prospective employers. One woman who enrolled in a for-profit doctorate program in Dallas later learned that the school never acquired the proper accreditation she would need to get the job she trained for. She is now sinking in over $200,000 in student debt.

The biggest player in the for-profit sector is the University of Phoenix -- now the largest college in the U.S. with total enrollment approaching half a million students. Its revenues of almost $4 billion last year, up 25 percent from 2008, have made it a darling of Wall Street. Former top executive of the University of Phoenix Mark DeFusco told FRONTLINE how the company's business-approach to higher education has paid off: "If you think about any business in America, what business would give up two months of business -- just essentially close down?" he asks. "[At the University of Phoenix], people go to school all year round. We start classes every five weeks. We built campuses by a freeway because we figured that's where the people were."

"The education system that was created hundreds of years ago needs to change," says Michael Clifford, a major education entrepreneur who speaks with FRONTLINE. Clifford, a former musician who never attended college, purchases struggling traditional colleges and turns them into for-profit companies. "The big opportunity," he says, "is the inefficiencies of some of the state systems, and the ability to transform schools and academic

programs to better meet the needs of the people that need jobs."

"From a business perspective, it's a great story," says Jeffrey Silber, a senior analyst at BMO Capital Markets, the investment banking arm of the Bank of Montreal. "You're serving a market that's been traditionally underserved. ... And it's a very profitable business -- it generates a lot of free cash flow."

And the cash cow of the for-profit education industry is the federal government. Though they enroll 10 percent of all post-secondary students, for-profit schools receive almost a quarter of federal financial aid. But Department of Education figures for 2009 show that 44 percent of the students who defaulted within three years of graduation were from for-profit schools, leading to serious questions about one of the key pillars of the profit degree college movement: that their degrees help students boost their earning power. This is a subject of increasing concern to the Obama administration, which, last month, remade the federal student loan program, and is now proposing changes that may make it harder for the for-profit colleges to qualify.

"One of the ideas the Department of Education has put out there is that in order for a college to be eligible to receive money from student loans, it actually has to show that the education it's providing has enough value in the job market so that students can pay their loans back," says Kevin Carey of the Washington think tank Education Sector. "Now, the for-profit colleges, I think this makes them very nervous," Carey says. "They're worried because they know that many of their members are charging a lot of money; that many of their members have students who are defaulting en masse after they graduate. They're afraid that this rule will cut them out of the program. But in many ways, that's the point."

FRONTLINE also finds that the regulators that oversee university accreditation are looking closer at the for-profits and, in some cases, threatening to withdraw the required accreditation that keeps them eligible for federal student loans. "We've elevated the scrutiny tremendously," says Dr. Sylvia Manning, president of the Higher Learning Commission, which accredits many post-secondary institutions. "It is really inappropriate for accreditation to be purchased the way a taxi license can be purchased. ... When we see any problematic institution being acquired and being changed we put it on a short leash."

COMMENTS

In order to foster a civil and literate discussion that respects all participants, FRONTLINE has the following guidelines for commentary. By submitting comments here, you are consenting to these rules:

Readers' comments that include profanity, obscenity, personal attacks, harassment, or are defamatory, sexist, racist, violate a third party's right to privacy, or are otherwise inappropriate, will be removed. Entries that are unsigned or are "signed" by someone other than the actual author will be removed. We reserve the right to not post comments that are more than 400 words. We will take steps to block users who repeatedly violate our commenting rules, terms of use, or privacy policies. You are fully responsible for your comments.

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Classroom Activities

college, inc.: The Sales and Marketing Story

Record numbers of Americans are turning to higher education to give them a stronger edge in the job market. One of the fastest growing—and most controversial—sectors of the higher-education industry is for-profit

ABOUT THIS GUIDE

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colleges and universities. In this video clip from *College, Inc.*, students will learn about the aggressive marketing of for-profit colleges, concerns about their enrollment practices, and how the debt load for students at for-profit schools is often more than twice that of those at traditional schools.

Getting Started

For classrooms studying economics, civics and language arts, FRONTLINE provides a set of video themes and discussion questions to help students analyze and understand key current events. Watch the video chapter and start a discussion that examines the

Printable .pdf of entire guide (Adobe Acrobat required)

business practices of for-profit colleges and universities. Go further into this topic with the *College, Inc. Lesson Plan* that asks students to evaluate a proposed policy designed to help graduates of for-profit schools successfully repay their student loans.

Video Themes

- For-profit colleges and universities spend more money on marketing than some multinational brands like Tide, Revlon and FedEx. This spending can rival or exceed what is spent on instruction.
- The pressure on for-profit schools to continually add students and increase profits has raised concerns about some schools' recruiting practices. In the early '90s, a congressional investigation accused a number of for-profit schools of using false or misleading advertising and illegal recruitment efforts.
- While students at for-profit schools make up only 10 percent of the

college-going public, they consume almost a quarter of all federal financial aid. The majority of a for-profit school's revenue comes from federal grants and loans.

- Critics of for-profit schools say such institutions use high-pressure sales tactics to recruit students, provide easy access to federal financial aid, load them with debt, and leave the taxpayer stuck with the bill.
- For-profit institutions say they provide a valuable service to low-income and adult students that traditional higher education has given up on.

Discussion Questions

- Watch closely the montage of commercials at the beginning of the video segment. Describe the images you see and audio messages you hear. What messages do for-profit colleges want you to get from these promotional clips? What types of people are most likely to respond to these commercials?
- For-profit colleges spend 20 to 25

percent of their total revenue on getting people to come to the college and only about 10 to 20 percent on instruction once the student is there. How would you allocate funds if you ran a for-profit college?

- How do federal grants and loans benefit both students and for-profit schools? Why do many graduates find it difficult to repay student loans? Do you feel the for-profit schools that arrange for these loans are partly responsible for the problem? Explain.
- For-profit colleges' have been criticized for their high-pressure recruitment and enrollment practices. What do you think about them? How do for-profit institutions answer these criticisms?
- Consider the case of Anne Cobb. At 35, Anne made less than $7,000 a year but was able to apply for a student loan. She graduated with more than $30,000 in debt and has struggled to pay back her loans. What do you think about Anne's situation? Do you think students at other higher-education institutions

face similar problems? Explain your answers.

Go Further

Featured Lesson Plan: “Policy Analysis: The ‘Gainful Employment’ Rule”

Web-exclusive Resources: Perspectives on For-profit Colleges and Universities

Classroom Activities
COLLEGE, INC. "The Sales and Marketing Story"

VIDEO OVERVIEW

Record numbers of Americans are turning to higher education to give them a stronger edge in the job market. One of the fastest growing—and most controversial—sectors of the higher-education industry is for-profit colleges and universities. In this video clip from *College, Inc.*, students will learn about the aggressive marketing of for-profit colleges, concerns about their enrollment practices, and how the debt load for students at for-profit schools is often more than twice that of those at traditional schools.

GETTING STARTED

For classrooms studying Economics, Civics and Language Arts, FRONTLINE provides a set of video themes and discussion questions to help students analyze and understand key current events. Watch the video chapter and start a discussion that examines the business practices of for-profit colleges and universities. Go further into this topic with the *College, Inc. Lesson Plan* that asks students to evaluate a proposed policy designed to help graduates of for-profit schools successfully repay their student loans.

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- Critics of for-profit schools say such institutions use high-pressure sales tactics to recruit students, provide easy access to federal financial aid, load them with debt, and leave the taxpayer stuck with the bill.
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GO FURTHER

Featured Lesson Plan: "Policy Analysis: The 'Gainful Employment' Rule"

Web-exclusive Resource: Perspectives on For-profit Colleges and Universities
http://www.pbs.org/wgbh/pages/frontline/collegeinc/interviews/

LESSON PLAN: COLLEGE, INC.

“Policy Analysis: The ‘Gainful Employment’ Rule”

Overview:
In this lesson, students will watch a video clip that shows a single mother struggling to repay her student loans, discuss the cause of her debt load, and work on a mock policy committee to evaluate a proposed rule designed to help others avoid this situation. For background information on the “gainful employment” rule discussed in the main activity, please see Related Resources.

Subject Areas:
Social Studies, Language Arts, Government/Civics, Economics

Grade Level:
Grades 9-12

Objectives:
Students will:
- Examine why many students of for-profit colleges and universities carry a heavy debt load
- Explore the positions of various stakeholders regarding the gainful employment rule proposed by the U.S. Department of Education
- Analyze the costs and benefits of the Department of Education’s proposal
- Recommend whether or not the gainful employment rule should be enacted

Estimated Time Needed:
Two 50-minute class periods, plus homework time

Materials Needed:
- Internet access and equipment to show the class an online video clip
- Chapter Three from *College, Inc.:* “The Sales and Marketing Story” [link to the homepage of this guide]
- Handout 1: The “Gainful Employment” Rule (PDF file)
- Handout 2: Stakeholders’ Points of View (PDF file)
- Handout 3: Deliberation Procedures (PDF file)
- Handout 4: Deliberation Records (PDF file)
- Handout 5: Agreement Form (PDF file)

Procedure:

1. For homework the night before this lesson, ask students to read the handout, The “Gainful Employment” Rule.

2. Begin the lesson by showing the class Chapter Three of *College, Inc.*, “The Sales and Marketing Story.” [link to the homepage of this guide] Ask students to take notes on the situation faced by Anne Cobb, a single mother who is having trouble repaying her college loans.

3. Ask the class who or what is responsible for Ms. Cobb’s heavy debt load. (Herself? High tuition that requires substantial borrowing? Easy access to federal student loans? Low income post graduation?, etc.) Discuss student ideas.

4. Explain that the U.S. Department of Education regulates higher education and has proposed a rule it hopes will help people like Anne Cobb. Students are going to simulate a process used by policy-makers to analyze a proposed rule and provide feedback on whether it is an appropriate solution to a given problem. In this case, they will examine the gainful employment rule proposed by the U.S. Department of Education and recommend whether or not it should be enacted. Distribute the remaining handouts and review the steps for the activity.

5. Assign each student one of these seven stakeholder roles:
   - Representative from the U.S. Department of Education (ED)
   - Former student of a for-profit college who had a positive experience
   - Former student of a for-profit college who had a negative experience
   - For-profit higher-education industry lobbyist
   - Congressional representative who is critical of for-profit education institutions and concerned about low-income and minority students
   - Congressional representative who is critical of the ED proposal
   - Congressional representative who is concerned that the ED is overstepping its authority

6. Organize groups that include at least one of each type of stakeholder.

7. Have each group proceed through the activity to develop its recommendation. If time permits, have each group present its recommendation to the entire class.

8. Ask students to complete the agreement form individually.

CREDITS

This teacher's guide was developed by Cari Ladd. It was written by Greg Timmons. Advisers were Satinder Hawkins of Millikan High School in Long Beach, Calif., and Mark Pearcy of Braden River High School in Bradenton, Fla.

LESSON EXTENSIONS:

- Explore additional perspectives on the cost of higher education by watching the Miller Center's National Debate Series' "The Cost of Higher Education." http://millercenter.org/public/debates/ed_cost. Students can take notes on the debate arguments, determine which debater best represents their point of view, and explain why.
- Have students review President Obama's public policy agenda for higher education http://www.congressweb.com/aascu/obama_higher_ed.htm and determine to what degree his proposals might apply to for-profits. The class should also research the positions of their senators and congressional representative on these proposals. Students can then write a news report about a specific public policy proposal for higher education, analyzing the proposal's strategy from the perspectives of national leaders.
- Have students develop a rubric of priorities for what they would want in a college education. Ask them to use this rubric to rate two for-profit and two public or private colleges and universities based on the information at their websites. Students should then analyze in writing which institution best meets their needs and explain why.

RELATED RESOURCES:

Students should be aware that websites often present only one side of an issue. Encourage students to think about and question websites as they are reviewing them. Some guiding questions they can use are: What did you learn from this site? What didn't you learn from this site? Who sponsors this site? What bias might the sponsor have? How current is the site?

Additional Background:

"College Students Squeezed by Rising Costs, Less Aid"
http://www.pbs.org/newshour/bb/education/july-dec08/collegecosts_12-09.html
This December 2008 PBS *NewsHour* report looks at the struggle more college students and their families are experiencing to afford college tuition.

“The Allure of For-profit Universities Grows”
http://www.npr.org/templates/story/story.php?storyId=124655777
This NPR story explains that as higher learning becomes increasingly expensive, students are taking a greater hand in where and how they get an education.

“For-profit Universities Want Some Respect”
http://www.fastcompany.com/magazine/141/universities-inc.html
This article from *Fast Company* magazine looks at the booming for-profit education industry and asks the question, “Can market-driven schools award online diplomas that graduates can be proud of?”

The Gainful Employment Rule

“Pushback on Gainful Employment,” April 22, 2010
http://www.insidehighered.com/news/2010/04/22/gainful
This April 2010 article from *Inside Higher Education* examines the Department of Education’s gainful employment proposal and a study commissioned by the Career College Association that examined the proposal’s potential consequences.

Purchasing the Film:
College, Inc. can be purchased from PBS Educational Media:
http://teacher.shop.pbs.org/product/index.jsp?productId=4104463

RELATED STANDARDS:
These standards are drawn from "Content Knowledge," a compilation of content standards and benchmarks for K-12 curriculum by McRel (Mid-continent Research for Education and Learning)
http://www.mcrel.org/standards-benchmarks

Civics, Standard 1: Understands ideas about civic life, politics and government

Civics, Standard 21: Understands the formation and implementation of public policy

Civics, Standard 25: Understands issues regarding personal, political and economic rights

Economics, Standard 1: Understands that scarcity of productive resources requires choices that generate opportunity costs

Economics, Standard 6: Understands the roles government plays in the United States

Language Arts, Standard 1: Uses the general skills and strategies of the writing process

Language Arts, Standard 7: Uses reading skills and strategies to understand and interpret a variety of informational texts

Language Arts, Standard 8: Uses listening and speaking strategies for different purposes

Language Arts, Standard 9: Uses viewing skills and strategies to understand and interpret visual media

The “Gainful Employment” Rule: Student Handout #1

Introduction: For much of our nation’s history, a college education was accessible to only the chosen few wealthy enough pay for it. After World War II, the federal government provided college tuition grants in the form of the GI Bill. Gradually, states picked up a lot of the expense for a college education, keeping tuition costs down. The 1960s and 1970s saw the introduction of Pell Grants and federally sponsored college loans to help low-income and minority students. These actions by the government provide a subsidy that allows students to finance their education. The added funds lower the cost of education and enable more people to attend college, which in turn makes them more competitive in the job market. The cost to the taxpayer is offset by the value of having a more educated workforce to stimulate the economy.

The Rising Cost of Higher Education

Since the 1980s, the cost of college tuition has risen dramatically. However, state support for higher education has dropped significantly.

Decreasing State Support Subsidies for Higher Education (averages)	
1985	**2005**
$7,269	$6,445

Cost of Four-year College Tuition (averages)		
	1985	**2009**
One-year tuition, public college or university	$2,784	$7,020
One-year total expenses, public college or university	$7,674	$19,338
One-year tuition, private college or university	$15,487	$39,028
Total cost for four years, public college or university	$32,000	$80,000
Total cost for four years, private college or university	$63,000	$160,000

Source: National Center for Educational Statistics, U.S. Department of Education, Institute of Education Sciences

As federal and state tax revenues decline, legislators must decide which programs to continue funding and which should be cut. The cost-benefit analysis involved in these decisions raises important questions about the long-run economic implications of reducing support for higher education. What might happen if the cost of college tuition becomes too expensive for most Americans?

More People Attending For-profit Colleges
The draw to get a college education is as great as ever. Full-time workers aged 25 and over with college degrees make an average of $20,000 a year more than those with only high school diplomas. With the ever-increasing implementation of advanced technology, the workplace is constantly and rapidly changing, and further education is often needed.

Median Annual Earnings by Education, Race and Gender 2007 year-round, full-time workers Ages 25 and older			
	Not a high school graduate	**High school graduate**	**Bachelor's degree**
All workers	$19,405	$26,894	$46,905
Sex			
Male	$27,108	$37,632	$65,011
Female	$20,341	$27,477	$47,333
Race			
White, non-Hispanic	$30,381	$35,647	$59,644
Black	$23,466	$28,690	$47,153
Hispanic	$22,040	$27,838	$45,396
Asian	$24,220	$30,105	$55,279

Source: Educational Attainment in the United States, 2007; U.S. Census Bureau

Traditional public and private institutions of higher education have found it difficult to find room for all the people who want advanced degrees or who need to boost their educational status. Enter the for-profit colleges and universities like University of Phoenix, Kaplan University and Argosy University. These institutions seek to fill this gap and provide a college degree to people who might not otherwise have the opportunity to get one.

The cost of these for-profit schools is usually higher than traditional public institutions and comparable to private college tuition. Despite these costs, students are attracted to for-profit schools because of their convenient locations, simple admission procedures and access to federal grants and loans to pay the costs.

Criticism of For-profit Colleges
Over the past several years, for-profit colleges and universities have come under increased scrutiny and criticism for high-pressure recruitment, deficient instructional programs and a poor record on employment placement that has made it difficult for students to pay off their college loans. The debt load for students at for-profit schools is, on average, more than twice that of traditional schools.

U.S. Department of Education Proposal
To address some of these concerns, the U.S. Department of Education is looking into strengthening some rules on the use of federal financial aid under the Higher Education Act. One of these rules says that vocational or career programs must “prepare students for gainful employment in a recognized occupation” to be eligible for federal grants and loans. “Gainful employment” means that the graduate will be able to earn enough of a salary to pay back any loans that were obtained to pay for college. The Department of Education would require for-profit institutions to show that graduates with a typical student debt are able to pay their loans in 10 years without taking more than 8 percent of their expected earnings.

For example, if a student has a debt upon graduation of $9,000, his or her loan repayment would be $1,250 per year. This would mean that the graduate would have to be making a salary of at least $15,625 ($1,250 is 8 percent of $15,625) a year to satisfy the gainful employment standard. The rule is intended to do two things: 1) hold for-profit colleges and universities accountable to their promises; and 2) help graduates pay off their loans. Most students have post-graduate debt of $23,000 of more, which would mean a graduate would need a salary of more than $39,000.

Sources: “Is the Business Model of Higher Education Broken?,” a white paper by David W. Breneman, University Professor and Newton and Rita Meyers Professor in Economics of Education, University of Virginia, March 2010.

Stakeholder Positions
Your class will simulate a process used by policy-makers to analyze a proposed rule and provide feedback on whether it is an appropriate solution to a given problem.

In your class simulation, the U.S. Department of Education has gathered together a number of “stakeholders” to study the gainful employment rule and recommend whether or not it should be enacted. These recommendations will be seriously considered before any action is taken. You will be asked to represent the perspective of one of these stakeholders:

1. **Representative from the Department of Education**
   The Department of Education believes for-profit colleges are playing an important role in fulfilling President Obama’s goal of making the United States the nation with the highest number of college graduates by 2020. As long as they provide students a great education, are honest about what they can offer, and there is value for the investment, for-profit institutions have a vital role to play in job training. The new gainful employment rule will allow for-profit institutions to continue to offer their services, make a profit, and expand their markets. It will also ensure students and taxpayers that for-profit institutions can back up their promises to effectively prepare students for gainful employment. Programs that help students get jobs within the 8 percent range would be allowed to continue. Programs that don’t will be put under closer scrutiny. The time to act is now. To do otherwise would place taxpayer funds at risk and discourage disadvantaged youths and adults from continuing their pursuit of education and training.

2. **Former students who have benefited greatly from their education at a for-profit college**
   You represent a large group of college graduates who received basic and advanced degrees through a for-profit college or university. All of you found you were well served by the institutions you attended. You felt the recruitment and enrollment procedures were informative and the registration counselors were enthusiastic and helpful. They provided all the information you needed to make an informed decision. They also provided access to the financial aid you needed to pay the tuition and helped fill out and submit the forms to the proper agencies. The instructional programs delivered were what you expected, and the training helped you get a good-paying job.

3. **Former students who didn't benefit from the educational experience**
   You represent a group of students who attended or graduated from a for-profit college or university and found the experience to be wanting at best. You were subjected to high-pressure tactics to enroll in classes quickly before you felt you had all the information you needed. You felt the instructional programs lacked adequate training and instruction to prepare you for the job market. Some of you found out after graduation that the institution you attended was NOT accredited (as was claimed by the college), and thus your degree doesn't provide the credibility you need to get the job you wanted. Many of you are now facing high student loan payments that you are not able to pay with the salary you are receiving.

4. **Industry lobbyists concerned about overregulation and unfair treatment**
   You believe the Department of Education is hastily moving toward this rule without adequate research to back up the charges. There has been no study that shows for-profit schools provide fewer students with gainful employment than traditional education institutions. Another problem with the proposal is that it is estimated that the gainful employment rule as now written would basically force the for-profit institutions to eliminate 2,000 educational programs and leave 300,000 students without access to a college education. Many of these will be low-income and minority students. A counterproposal made by the for-profit education companies would require they provide full disclosure to prospective students on the debt they take would on and the employment prospects to help repay the debt. Students would be given information on the school's placement rates and projected salaries for jobs the student is qualified for. Such a proposal would provide the consumer protection that seems to be at the heart of the Department of Education's proposal.

5. **Congressional representatives holding different concerns**

   You are members of Congress who have asked to be a part of this deliberation process. You are not a united front and basically are attending the meetings to listen and make sure the concerns of your constituents are heard. Here are the different positions held by all of you:

   - **Congressional Group 1:** You are concerned that the for-profit institutions' marketing methods promise more than they can deliver. They too easily enroll students who are not fully prepared for college and will never be able to pay off their student loans. This is unfair to the American taxpayer. These companies need to be held accountable, and the Department of Education's proposal will make this happen. At the same time, access to federal money for higher education must be maintained and even increased. Forcing the cancellation of programs that don't meet the goals of the gainful employment rule may hurt low-income students who need financial aid to attend college so that they can compete in the job market.

   - **Congressional Group 2:** Accountability is important. The taxpayers' money needs to be effectively managed and spent wisely. However, the Department of Education's gainful employment proposal is unrealistic and poses a danger of overregulating a thriving industry. No college financial aid office can predict the salary a student might receive on a job he or she hasn't even obtained. Traditional public and private higher-education institutions don't fall under this provision, only the for-profits. That doesn't seem fair.

   - **Congressional Group 3:** It isn't a matter of whether the gainful employment rule is valid or not. The bigger question involves a potential violation of the separation of powers. Federal funds for tuition are provided under Title IV of the Higher Education Act. The gainful employment rule is intended to account for funds under that congressional act. Thus, it should be Congress and not the Department of Education establishing any rule or amendment relating to the act, not a Cabinet office within the executive branch. Congress should take up this matter when it moves to reissue the act in 2013.

Stakeholders' Points of View
Student Handout #2

Who	Point of View
Representative of the U.S. Department of Education	
Former student who had a positive experience at a for-profit college	
Former student who had a negative experience at a for-profit university	
For-profit college lobbyist	
Congressional Group 1	
Congressional Group 2	
Congressional Group 3	
Congressional Group 4	

Deliberation Procedures:
Student Handout #3

You have been assembled to discuss the U.S. Department of Education's "gainful employment" rule proposal. You will meet with individuals who represent different points of view to deliberate on the proposal and recommend whether the rule should be enacted. Use the following procedure to guide your efforts.

The group's goal is to answer this question: ***Is the gainful employment rule the best way to help college graduates pay back their student loans?***

1. Opening Statements
Each stakeholder group will make an opening statement, developed from information in the "Gainful Employment Rule" essay. Your statement should incorporate information from the stakeholders' guide and answer the questions: *What group do I represent? What do I think of the gainful employment rule?* As the other members describe their position, take notes on the "Stakeholders' Points of View" chart.

2. Statement of Premises
Think about each person's opening statement. What are the common assumptions your group has with any of the others? In other words, what things do all or most of the stakeholders agree on? As a group, list them at the top of the **Deliberation Records** chart. One assumption is already listed on the chart to get you started.

3. Identifying Options
On the **Costs and Benefits** chart, as a group, make a list of recommendations for the gainful employment rule based on what each stakeholder feels about the rule. These recommendations can range from "kill it" or "keep it as is" or change some element of the proposal explaining what it would be and why.

4. Evaluating Options
Go through each recommendation and discuss what are the costs and benefits of each. List these costs and benefits on the chart.

5. Deciding on the Best Option
As a group, study the chart and ask yourselves: "Which recommendations have the most benefits? Which have the fewest costs?" Circle those recommendations. Is one recommendation clearly superior to the others? If not, have each group member state which recommendation he or she favors and why. Does one recommendation appear to be the best one now?

6. Completing the Agreement Form
On your own, complete the **Agreement Form**.

Deliberation Records:
Student Handout #4

Common Assumptions

1. Most college graduates have large debts that are difficult to pay after graduation.
2.
3.
4.

Costs and Benefits

Option	Costs	Benefits
1.		
2.		
3.		
4.		
5.		

Agreement Form
(To be completed individually):
Student Handout #5

Fill in names and roles here of those who are participating in this agreement:

I. Background
We are studying the U.S. Department of Education's gainful employment rule. We understand that there are several concerns that prompted this proposed rule. They are:

II. Premises
We have the following basic assumptions and have based our conversations on them. (e.g., Most college graduates have large debts that are difficult to pay after graduation.)

III. Possible Solutions
We have discussed the following possible recommendations:

IV. Solution on which all parties agree:
We have agreed on the following recommendation on the gainful employment rule. Explain why you believe it is the best solution (or, if you disagree, why it isn't).

DVD

Home Video DVDs of *College, Inc.* are available from ShopPBS. Educational DVDs of *College, Inc.* are available from ShopPBS for Teachers.

Transcript

A transcript of *College, Inc.* is available here. This is the only place where you can access a transcript of this report. It is not available anywhere else.

posted may 4, 2010

COLLEGE INC.

College Inc.

PRODUCED BY
Chris Durrance
John Maggio
Martin Smith

WRITTEN BY
John Maggio & Martin Smith

ANNOUNCER: Tonight on FRONTLINE-

JACK WELCH, CEO, General Electric, 1981-01: It's education for profit.

ANNOUNCER: Business is booming.

UNIV. OF PHOENIX SALES REP.: You thinking about going back to school?

ANNOUNCER: They'll find you a loan-

ANNE COBB: It was just such an incredibly simple process.

ANNOUNCER: -give you a diploma.

HARRIS MILLER, Pres., Career College Association: We educate the students that traditional higher education has given up on.

ANNOUNCER: But what are the costs?

SHERRY HAFERKAMP, Graduate, Argosy University-Dallas, 2004-08: I really am at a dead end, and the student loans are going to keep mounting and mounting and mounting.

NICHOLAS BURBULES, Ph.D., Prof. of Education, U. of Illinois: The danger is a kind of fast-foodization of higher education itself.

MARTIN SMITH, Correspondent: This is an on-line university. This is what it looks like.

ANNOUNCER: Correspondent Martin Smith investigates.

MARTIN SMITH: You've been in office now for a year. What have you done to stop this?

ANNOUNCER: College, Inc.

MICHAEL CLIFFORD, Investor: [*on the phone*] Hey, Willy. Michael. Could you give me a call when you get a chance? Thanks.

Francisco Garcia, how are you, sir? [*laughs*] What's the next step, Francisco or Bob, in your mind with- with Michael?

MARTIN SMITH, Correspondent: [*voice-over*] Meet Michael Clifford.

MICHAEL CLIFFORD: I didn't see the email confirmation from them. Did they confirm?

MARTIN SMITH: He calls himself an educational entrepreneur.

MICHAEL CLIFFORD: Dennis's read on it is that the regionals have just never had to deal with that before.

MARTIN SMITH: From his headquarters in the sleepy beach community of Del Mar, California, Clifford is building an empire.

MICHAEL CLIFFORD: Was it Mark Twain that said "Don't let college get in the way of your education"? [*laughs*]

MARTIN SMITH: He invests in failing universities and injects them with large amounts of capital. When they go public, he can make a

bundle of money in the process.

MICHAEL CLIFFORD: The regulatory environment has changed so much.

MARTIN SMITH: One of his schools was involved in a major 2008 IPO on Wall Street, Grand Canyon University. You may never have heard of it, but today it's valued at $1.2 billion.

MICHAEL CLIFFORD: Hello. It's Michael.

MARTIN SMITH: A former musician who never attended college, Michael Clifford is an unlikely player in the rarefied world of academia.

MICHAEL CLIFFORD: I was doing a lot of cocaine, drinking a lot, smoking a lot of pot from the music business, then the club scene. Somebody introduced me to Jesus Christ by reading me the Bible, and it changed my life. I became a born-again Christian. And then my spiritual mentor, a guy named Bill Bright from Campus Crusade for Christ International, sat me down one day and said "You need to get into post-secondary education." And I said, "Bill, I've never gone to college. I don't know what you're talking about."

When I came home and told a couple of my friends that I was going to buy a university, they all said, "Are you back on crack or something?" I mean, no one buys a college. And I said, "No, no. I think it can be done."

MARTIN SMITH: Today, Clifford is part of a movement that is transforming the way we think about higher education in America. He and his investors have turned around a half dozen colleges that now enroll close to 40,000 students.

[*on camera*] There are people who would say, "Look, this guy, Michael Clifford, he never went to college. He was a musician. He sort of drifted around. He had a born-again experience." Do you have the credibility, do you have the bona fides to be determining the future of colleges around the country?

MICHAEL CLIFFORD: No, I don't. But I'm doing it. And I think that's the great thing. Only in America. I mean, my new book is called How to Run a College by a Guy That Never Went to One.

MARTIN SMITH: [*voice-over*] Clifford doesn't act alone. He attracts some of America's biggest investors, like former GE chairman Jack Welch. According to The Wall Street Journal, Welch invested $2 million in one of Clifford's schools.

JACK WELCH, CEO, General Electric, 1981-01: I invest in bonds and other things, invest in all these widgets I invest in, private equity, or invest in a school. It's education- for profit. I like this investment more than any one I got.

MARTIN SMITH: Traditional colleges raise capital from wealthy alumni and other donations. Clifford's for-profit schools sell shares to investors.

MICHAEL CLIFFORD: [*on the phone*] I just think that if everybody's going to fund-

MARTIN SMITH: Clifford's latest turnaround project is a small nursing school in a Hispanic section of San Diego.

MICHAEL CLIFFORD: We have probably invested in the neighborhood of $6 million to $7 million in the school. It will get as big as we want it to get because the demand for bilingual nursing and other related health care programs is so great.

MARTIN SMITH: Clifford took over InterAmerican College in 2009. It's geared to serve Latinos, and he plans to open a string of campuses outside military bases. The students typically hold jobs by day and take classes well into the night to improve their job prospects.

SUSAN ROE, Ph.D., Fmr. President, InterAmerican College, 2009-10: Typical student is- they're adult students, so their average age might be in their early 30s. They're very career-oriented.

MARTIN SMITH: In the past these, students might have graduated high school and found a good job as a factory worker or a secretary. There was no need for more school. But with the economy changing, they are coming back to school in record numbers. They represent a huge and growing market.

It's a phenomenon that leaders of America's community colleges have known for years. In an old industrial section of Queens, New

York, the jobs are long gone and students are crowding classrooms.

GAIL MELLOW, Ph.D., Pres., LaGuardia Community College: College is now fundamental. If you're going to work, to just simply work, to make it as an adult, you are going to need an education because the economy is about knowledge.

MARTIN SMITH: But the demand is so great, community colleges can't keep up.

GAIL MELLOW: There's an explosion of enrollment this year, and most of us have been turning away students. In California, I know it's tens of thousands, maybe hundreds of thousands of students who couldn't even come in.

MARTIN SMITH: [*on camera*] How do you meet that demand?

GAIL MELLOW: What LaGuardia Community College has done, and other colleges throughout the country have said, "Come to us, and when we're full, we're going to shut the door."

MARTIN SMITH: And more and more, you're having to do that.

GAIL MELLOW: We are having to do that.

[*www.pbs.org: More on community colleges*]

MARTIN SMITH: [*voice-over*] The failure of community colleges to accommodate the demand has given Clifford and others a huge opportunity.

MICHAEL CLIFFORD: Many schools are not meeting the market demand, and we have somewhere between 30 and 50 million working American adults who have not finished their college degree.

MARTIN SMITH: The question is, are for-profit schools the answer? In the '90s, Clifford apprenticed with the undisputed master, the architect of the for-profit model, John Sperling. In 1976, Sperling, a Cambridge University-educated humanities professor, turned his back on traditional academia and moved to Phoenix, Arizona. He believed he could mass produce education and run his school more like a corporation than a university.

Now his school is everywhere, the University of Phoenix. It's one of

the largest universities in the world, enrolling close to a half million students, more than the entire University of California system and all the Ivy League schools combined.

I traveled here knowing that the University of Phoenix is wary of the media. But they had agreed to some interviews. Then at the last minute, they backed out and gave no explanation. Instead, I spoke to former Phoenix executives.

MARK DeFUSCO, Dir., University of Phoenix, 1994-02: It was not by accident that this university developed in the Southwest and the West. That's where people go to reinvent themselves, and that's where John reinvented the university.

MARTIN SMITH: [*on camera*] Why did the university need to be reinvented? What's wrong with the way that universities were running up until the time that John Sperling came along with Phoenix?

MARK DeFUSCO: John saw the constraints of most- most college professors. You know, anybody who's got any new ideas in college are quickly beaten down. The academy hasn't had a real change in how it works for almost 500 years.

MARTIN SMITH: [*voice-over*] Mark DeFusco arrived at the University of Phoenix in the mid-'90s with a Ph.D. in education from USC, but he quickly embraced the Phoenix model.

MARK DeFUSCO: Phoenix, people go to school all year round. We started classes every five weeks. And instead of starting classes in September, in January, we started classes in January, February, March, sometimes two in April.

If we had more students than we could handle, we'll build another site and handle some more. We built campuses by a freeway because we figured that's where the people were. So if you went by any major freeway in the Southwest, you're going to find a University of Phoenix campus. We put schools 20 minutes apart because that's about as far as people could drive at rush hour.

MARTIN SMITH: To keep costs low, the University of Phoenix hired teachers on short-term contracts. They did away with tenure.

MARK DeFUSCO: I didn't have to worry about tenure. If they

weren't getting to the outcomes I needed, I just wouldn't give them another contract.

MARTIN SMITH: And where it takes a traditional university months or years to get a new course approved by faculty, at Phoenix they could generate one in a matter of days.

MARK DeFUSCO: We would put a group of faculty members, a group of experts, into a room in a hotel for a weekend, and we wouldn't let them out until they came up with a new curriculum.

MARTIN SMITH: The university was not bound by bricks and mortar, either. Students who couldn't attend a Phoenix campus could log into courses on line.

MARK DeFUSCO: We were designing the coursework around the people who were going to use it.

MARTIN SMITH: [*on camera*] The customer.

MARK DeFUSCO: You bet.

MARTIN SMITH: [*voice-over*] It wasn't long before Wall Street took notice, and in 1994, the University of Phoenix and its parent corporation, the Apollo Group, went public. In an otherwise flat market, the stock took off.

MARK DeFUSCO: It was a very exciting time. For the first 15 quarters, we broke records and earnings every quarter. We were filling in places that no one had ever filled in before. It was a change of an industry. And the early managers at Apollo did very, very well.

MARTIN SMITH: [*on camera*] What do you mean by very, very well?

MARK DeFUSCO: They did very, very well. I mean, ultimately, there's not college professors and college administrators in this country that did as well as Apollo administrators. I mean-

MARTIN SMITH: How much could a college administrator for University of Phoenix make?

MARK DeFUSCO: The sky was the limit. When I left Apollo- I

shouldn't say this. I shouldn't say this. [*laughs*]

MARTIN SMITH: It's a free country.

MARK DeFUSCO: I understand. I understand. But it's boasting, and I won't say it.

MARTIN SMITH: But in terms of what you made, you did very well?

MARK DeFUSCO: We did very well. I did better than I ever imagined.

MARTIN SMITH: [*voice-over*] Today, Phoenix founder John Sperling is a billionaire and many of his executives have reaped millions. With money like that to be made, the business model caught fire. It's been replicated across the industry.

For-profits offer a range of degrees but focus on career training in the growth sectors- nursing, business management, I.T. and education. It's difficult to assess the quality of the degrees. Across all colleges, traditional or for-profit, there's no standard measure imposed on them. But we did talk to satisfied students.

HALEY, Grand Canyon University: I love Grand Canyon and the community that it represents, and also, the Christian background.

VASTI, InterAmerican College: This school is just perfect. It's night classes.

ASHLEY, Fashion Inst. of Design and Merchandising: I'm studying merchandise product development, and it is the coolest thing I've ever done in my life. I love it.

MARTIN SMITH: But I was surprised to learn how expensive tuition at the for-profits is, five to six times the cost of a community college and as much as twice a four-year state university.

On Wall Street, they're a big hit.

JEFFREY SILBER, Analyst, BMO Capital Markets: From a business perspective, it's a great story. You're serving a market that's been traditionally underserved. There is a need for more education. And it's a very profitable business. It generates a lot of free cash flow. So it attracted a lot more financiers, and that really

helped take the industry to the next level.

MARTIN SMITH: One of the most successful was Grand Canyon University, the school that Michael Clifford came across in 2004 when it was a small, struggling Christian college.

[*on camera*] You've got $60 million invested in improvements here.

BRIAN MUELLER, CEO, Grand Canyon University: In the next three years, yes.

MARTIN SMITH: [*voice-over*] Today, under another former University of Phoenix executive, Brian Mueller, the school is flourishing. There's a business school with a brand-new building. The nursing program has state-of-the-art facilities. The basketball team is competitive, and the baseball team has a new diamond.

Some 40,000 students are now enrolled at Grand Canyon. That's a 400 percent increase in just a few years. But you won't find the majority of those students here.

[*on camera*] I hear it.

[*voice-over*] Instead, most of them are here.

[*on camera*] Oh, yeah.

[*voice-over*] Ninety percent of Grand Canyon's students are logging in on line from across the country. These servers alone represent 35,000 of them.

[*on camera*] This is an on-line university. This is what it looks like.

JOE MILDENHALL, Chief Information Officer: This is where- other than the people involved, the instructors and the students, this is where they all come together, is electronically.

MARTIN SMITH: [*voice-over*] On-line education is incredibly profitable.

[*on camera*] And how much capacity do you have built in here? How big can you go?

[*voice-over*] It allows schools to tap into a wellspring of new students and expand rapidly at the flick of a switch.

JOE MILDENHALL: We can easily add more servers and take several times this.

MARTIN SMITH: [*on camera*] Several times? So in the 100,000, 150,000?

JOE MILDENHALL: Yes.

MARTIN SMITH: Really?

[*voice-over*] An on-line course at Grand Canyon costs from $400 to $550 a credit hour. We watched an on-line class at another school. We were asked - and agreed - not to show it, but for the most part, it's just instructor-led discussion groups. There's little in the way of video or graphics. But it is convenient.

KEVIN TRSINAR, Student, Chancellor University: The times where I have to work in the morning, I can come and do school work at night. And the times that I work in the afternoon, I get up and I do school work during the day.

MARTIN SMITH: But some critics of this model worry there may be something lost.

NICHOLAS BURBULES, Ph.D., Prof. of Education, U. of Illinois: The danger, obviously, is a kind of fast-foodization of higher education itself, where a low cost, convenience and ease of-ease of finishing become values in themselves, to the possible detriment of the things that only can be accomplished slowly and over time.

MARTIN SMITH: At Grand Canyon, most of Mueller's profit comes from his on-line operation, but he still sees the value of anchoring his university in a traditional campus.

BRIAN MUELLER, CEO, Grand Canyon University: There is a lot of value in the minds of a teacher in Minnesota that's going to do a masters degree program. She's going to do it on line. Now, even though she's not coming to campus, the fact that it has a traditional campus that looks like the campus that she went to as an undergraduate, the fact that the campus is growing and flourishing

and has all of the excitement around it is very- is important.

MARTIN SMITH: [*on camera*] So it builds your brand.

BRIAN MUELLER: It absolutely builds the brand.

[*www.pbs.org: Mueller's extended interview*]

ANNOUNCER: [*GCU television commercial*] Not just a job search, a journey-

MARTIN SMITH: [*voice-over*] Beyond building the campus and installing his on-line servers, Mueller is spending even more money getting the word out, $25 million last year alone.

ANNOUNCER: [*television commercial*] We're all here for a purpose. Find yours.

MARTIN SMITH: For-profit schools spend a lot on marketing.

ANNOUNCER: [*television commercial*] Whatever your business card says, you're in the business of you.

MARTIN SMITH: Their ad costs rival those of multi-national brands.

ANNOUNCER: [*Univ. of Phoenix television commercial*] Which university revolutionized education in America?

MARTIN SMITH: The granddaddy, University of Phoenix, spent $130 million on ads in 2008.

ANNOUNCER: [*Univ. of Phoenix television commercial*] Which university has the largest business school in the country?

MARTIN SMITH: That's more than brands like Tide, Revlon and FedEx.

ANNOUNCER: [*television commercial*] Why wait any longer?

MARTIN SMITH: What they spend on sales and marketing can rival or exceed what they spend on teaching.

MARK DeFUSCO, Dir., University of Phoenix, 1994-'02: If you

take a look at for-profit colleges, the analysts will tell you that anywhere between 20 and 25 percent of the total revenue of a company is in sales and marketing, about a quarter. In most cases, the faculty are in the 10 to 20 percent range.

MARTIN SMITH: [*on camera*] Should that make us uncomfortable?

MARK DeFUSCO: I don't know. Why would one be uncomfortable?

MARTIN SMITH: Well, you're spending more on getting me to come to the school than you are on the service you're providing once I'm there.

MARK DeFUSCO: I understand. Well-

MARTIN SMITH: Is that right?

MARK DeFUSCO: When I go and buy perfume for my mom, the chemicals in the bottle and the bottle itself amount to about $0.50. The advertising amounts to five or six bucks.

MARTIN SMITH: But you're not selling perfume.

MARK DeFUSCO: What makes education so special? For-profits have to get people's attention, and they do a very good job of getting people's attention.

UNIV. PHOENIX SALES REP.: Are you thinking of going back to school? Excellent! What are you thinking about going for?

MARTIN SMITH: [*voice-over*] In addition to lots of advertising, the industry relies on an army of sales people.

PHOENIX SALES REP: I wish you the best of luck.

WOMAN AT JOB FAIR: Thanks a lot.

MARTIN SMITH: Here, recruiters are working a job fair, trying to convince job seekers to come back to school.

PHOENIX SALES REP: You had said something about accounting. We have an MBA with an emphasis in accounting. We also have a masters in accountancy, which-

JEFFREY SILBER, Analyst, BMO Capital Markets: The for-profits need to continually add students. When you think about it, for the University of Phoenix, for example, in order to grow, on top of the folks that are leaving, you've got to add the equivalent of, you know, one to one-and-a-half Ohio States per year.

MARTIN SMITH: The pressure to grow has raised questions about enrollment practices.

JEFFREY SILBER: In 2004, 2005, you started to see some companies probably doing things they shouldn't have been doing- you know, going after populations, student populations, that maybe did not deserve to go to school, were not going to succeed in school. They were focusing on enrollments more than the quality.

MARTIN SMITH: In the early '90s, a congressional investigation accused a number of for-profit schools of employing false or misleading advertising and using illegal recruitment efforts. While some of those schools were shut down, allegations, negative press and lawsuits continue to dog the industry.

We talked to the chief Washington lobbyist for the for-profit schools, Harris Miller.

[*on camera*] The industry has a black eye, has been struggling for credibility. Why?

HARRIS MILLER, Pres., Career College Association: I don't think the industry has a black eye. I think the sector's doing very well. We're growing by 25 percent a year, 2.8 million students attending our schools. We have some challenges because there have been some allegations that everything is not perfect. I wish it were.

MARTIN SMITH: But what about the pressure of Wall Street to have them grow?

HARRIS MILLER: The pressure is to deliver a high education quality for their students. Our schools know that any time they step out of line, there's a huge risk. And there's large focus on compliance at all times, including on enrollment issues.

MARTIN SMITH: We wanted to find out more about how the enrollment process works. We'd heard complaints about call centers

and employees called "enrollment advisers" using high-pressure sales tactics on prospective students.

Then we got hold of this internal email from Argosy University. In it, a director of admissions is writing his team of enrollment counselors. "Create a sense of urgency," it says. "Push their hot button. Don't let the student off the phone. Dial, dial, dial."

Tami Barker was an enrollment adviser at another for profit school, Ashford University.

TAMI BARKER, Enrollment Adviser, Ashford Univ., 2008-09 : I didn't realize just how many students we were expected to recruit. And the amount of pressure that they put on you to meet these quotas I think challenges anybody's integrity.

MARTIN SMITH: In a letter to FRONTLINE, Ashford's parent company, Bridgepoint, says they don't have quotas. But Barker says she was instructed to make 150 calls a day and close on at least 12 students a month.

[*www.pbs.org: Read the full letter*]

TAMI BARKER: If your numbers started dropping, trainers would come around and start telling you to up your outgoing calls anywhere from to 300 to 450 calls a day to meet those quotas, to get those applications.

They used to tell us, you know, "Dig deep. Get to their pain. Get to what's bothering them, so that that way, you can convince them that a college degree is going to solve all their problems."

MARTIN SMITH: Another former Ashford enrollment counselor, in a submission to the Department of Education, wrote, "We are forced to do anything necessary to get people to fill out an application. Our jobs depend on it."

Bridgepoint says Ashford has zero tolerance for unethical behavior.

RAY CAMPBELL, Financial Counselor, Univ. of Phoenix, 2009-10: The focus is to start the student. Whether they're academically ready, whether they're financially ready, they need to start class.

MARTIN SMITH: Ray Campbell worked as a financial aid adviser at

the University of Phoenix. Once a student was recruited, it was his job to hook them up with a loan so they could start paying for classes as quickly as possible.

RAY CAMPBELL: If I put on my report that the student's not ready and they don't start, I would hear it. I would constantly be pressured of, "Why aren't they ready? Is there a way we can start them? What can we do to get them ready?" I mean, the focus was on, "This student needs to start, period."

MARTIN SMITH: Just weeks before this broadcast, the University of Phoenix replied at length to a list of written questions from FRONTLINE.

On the question of pressure tactics, they said, "Should we find an enrollment adviser misleading students, prompt action would be taken ... including termination." In the same letter, they wrote, "We are committed to financial literacy."

[*www.pbs.org: Read the full letter*]

Federal student loans are the lifeblood of the for-profit schools. Although their students comprise only 10 percent of the college-going public, they consume almost a quarter of all federal financial aid.

DANIEL GOLDEN, Education Reporter, Bloomberg News: The taxpayers are essentially funding this industry. Something like 75 percent of their revenue comes from federal grants and loans. The University of Phoenix, which is the biggest for-profit, it now gets 86 percent of its revenue from the federal government, up from something like 48 percent nine or ten years ago.

MARTIN SMITH: The schools say they're providing opportunity, helping students of modest means pay for college.

HARRIS MILLER, Pres., Career College Association: We educate the students that traditional higher education has given up on. Traditional higher education has become a very socio-demographically elite group of people. If you're not wealthy or upper middle class, you're not going to get into a traditional higher education system. So the only options lower-income students and working adults have is either to go to a community college, some of them can go to minority-serving institutions, and our option is the

third option.

MARTIN SMITH: What remains troubling is that, on average, the debt load of for-profit students is more than twice that of students at traditional schools.

DAN GOLDEN: Unlike a public community college, where a small grant will usually cover most of the tuition, for the for-profit colleges, the tuition requires substantial borrowing. So a student who drops out or who doesn't get a high-paying job, sooner or later, they have to pay the piper. And that can mean tens or even hundreds of thousands of dollars in loans that they have to pay back.

MARTIN SMITH: That's what happened to Anne Cobb.

ANNE COBB: I had two young girls, and I was trying to find odd jobs. My ex at that time went bankrupt, so all the bills actually rolled over onto me.

MARTIN SMITH: In 1994, Anne Cobb was a 35-year-old single mother making less than $8,000 a year and living on food stamps when an enrollment adviser from the University of Phoenix helped her get a student loan.

ANNE COBB: It was just such an incredibly simple process. I mean, it was, "Sign a few places here," and you know, "We'll let you know, and I'm sure you'll be approved." And I said, "Well, I'm not sure. I have a lot of bills. Is it still going to be OK?" "Oh, yeah. No problem. No problem at all. Don't worry about it. Just sign here."

MARTIN SMITH: Cobb graduated in 1999 with over $30,000 in debt. Over the course of a decade, with deferments, consolidations and penalties and an interest rate that has gone as high as 14 percent, the amount now due has ballooned to over $60,000.

ANNE COBB: You never hear these stories. You hear the happy stories with the double-car garage and the great house and everything else. You don't hear these horror stories.

MARTIN SMITH: Cobb is not the only person with large student debt. There are many like her, and this has some people worried.

DAN GOLDEN: The concern is that they're bringing in students who

can't succeed or graduate, loading them with debt. And the for-profit college is not the one that is on the hook, it's you and me. It's the taxpayer. It's the federal government.

MICHAEL CLIFFORD, Investor: [*on the phone*] I know you're worried about the complexity of it, but a plan to split the baby makes a lot of sense to me.

MARTIN SMITH: Michael Clifford is always in search of his next big deal.

MICHAEL CLIFFORD, Investor: [*on the phone*] He'll never get an opportunity like this anywhere in the rest of his life. Period.

MARTIN SMITH: We're on our way to a meeting for his latest potential acquisition.

MICHAEL CLIFFORD, Investor: [*on the phone*] Well, I'm going to push Gary hard today. [*laughs*]

MARTIN SMITH: We wanted to see what it takes to revive a failing college.

MICHAEL CLIFFORD, Investor: [*on the phone*] Thank you, sir. Call me if you need anything. Thank you.

MARTIN SMITH: [*on camera*] What is it that you do that turns a school from a distressed operation to a successful one?

MICHAEL CLIFFORD: Well, what I feel I do is, I bring the three Ms- money, management and marketing. Money, management and marketing. That's what it takes, combined with passion, to turn around the schools.

MARTIN SMITH: [*voice-over*] Clifford has found a school in Oakland, California, that has fallen on hard times. Patten University is like many small colleges across the country who have seen their endowments disappear during the recession. President Gary Moncher wants to save Patten, but without an immediate influx of cash, Patten may not make it through the year.

GARY MONCHER, Ph.D., President, Patten University: Patten is at the crossroads. With the economic turndown, we lost almost 50 per cent in our assets- I mean, literally dropped from $10 million

equity to $5 million. And the future didn't look very bright. So the question is, are we going to be passive and see what happens, or are we going to try to be proactive?

MARTIN SMITH: Despite its dire predicament, Patten still has one very valuable asset, something called regional accreditation.

JEFFREY SILBER, Analyst, BMO Capital Markets: For the most part, a regionally accredited school is considered a higher quality school.

MARTIN SMITH: [*on camera*] Like the Harvards and Yales-

JEFFREY SILBER: Harvard is regionally accredited. But so is DeVry. So is University of Phoenix, same type of accreditation that the Ivy League schools have. So if you can find an underperforming traditional school with regional accreditation, that's a very valuable property.

MICHAEL CLIFFORD: We had to do appraisals on what regional accreditation is worth for Wall Street, and the independent appraisers came up with a number that a school was worth $10 million. because it costs $10 million, 10 years, and a 50/50 chance of success to obtain regional accreditation.

MARTIN SMITH: So that accreditation is a very valuable thing.

MICHAEL CLIFFORD: It is. Once you have accreditation, you qualify for the student loan program.

MARTIN SMITH: [*voice-over*] And that's what Clifford needs. Accreditation is the key to unlocking federal financial aid funds.

MICHAEL CLIFFORD: I heard about Patten University from one of the regional accrediting executives, who said, "We really like this school. We're very concerned about its future financially. Would you go talk to them, Michael?" And I kept looking at Patten, going, "What can I do with this school?" I kept working on it. And then it hit me like a ton of bricks that it was the perfect fit for the Dream Center.

MARTIN SMITH: Dream Center is a non-profit Christian mission associated with the Angelus Temple, a mega-church near downtown LA. Since its founding in 1994, the Dream Center has been a hit

with Christian teenagers from across southern California. Michael Clifford is on its board of directors.

The Dream Center is housed in a former hospital that acts as a 24-hour rehab facility and shelter for ex-convicts, drug addicts and prostitutes. But if Clifford can make his deal with Patten, Dream Center will also include a fully accredited Dream Center College.

DREAM CENTER OFFICIAL: We are now in process of working towards this fall launching Dream Center College because of Michael's hard work!

MICHAEL CLIFFORD: If we take a prostitute off the street, or an ex Crips or Bloods member, we bring them into our programs and we start an education process.

MARTIN SMITH: [*on camera*] Let me make sure I understand. So the gang member, the former gang member or prostitute or whoever it is that comes to you, a homeless person, can get a college loan for an education.

MICHAEL CLIFFORD: Absolutely.

MARTIN SMITH: [*voice-over*] And it's not just the people in the shelter that Clifford's interested in, it's the social workers, too.

MICHAEL CLIFFORD: We did a lot of market research, and we believe that there's a gigantic market for us in Los Angeles of the 19 to 25-year-old who would like to get a degree but would like to help people hands-on.

MARTIN SMITH: [*on camera*] So you're going to be able to connect both the people that are providing- the social workers with a- with a loan and get them on a degree path at this Dream Center University, and you're going to be able to take some of their clients, the former gang members and prostitutes, and get them a college loan.

MICHAEL CLIFFORD: Exactly.

MARTIN SMITH: [*voice-over*] In a Dream Center conference room, I sat in on a meeting with Clifford and Patten's president as they tried to work out the final details of their deal.

MICHAEL CLIFFORD: What are the big barriers to the deal? Let's put the turds on the table or whatever you-

GARY MONCHER, Ph.D., President, Patten University: Here's kind of, like, if I can simplify it, Michael- and I like the fact you get right to the bottom line. I can't think of a more exciting opportunity for Patten to be involved in this work. We just need to move on in some way that makes sense to you.

MICHAEL CLIFFORD: Absolutely. Well, it always takes more money and longer time. I mean if, we think it's going to cost $2 million, it's going to cost $5 million. If we think it's going to be in two years, it's going to be five years. It always is that way, you know?

MARTIN SMITH: It's an unusual deal in one respect. Clifford wants to keep Patten and Dream Center non-profit.

MICHAEL CLIFFORD: -because I think it's two or three million bucks in the first 12 months, is what I'm hearing.

MARTIN SMITH: But Clifford's negotiated it so that if he can't find enough charitable donors, he can bring in investors and take Dream Center College for-profit.

MICHAEL CLIFFORD: -you know, because we can always go raise capital for a for-profit strategic alliance between the two-

GARY MONCHER: I don't really understand how it all works with investors coming in. And why would investors invest in this and not the Apollo Group? And it's a start-up company, and what's the payback?

MICHAEL CLIFFORD: In reality, this is a $3 million to $7 million project. I mean-

GARY MONCHER: I'm very thankful that Patten has the opportunity that it has at this time, but I'm very concerned about education as a business for profit, and that's simply speaking to a personal bias.

MICHAEL CLIFFORD: So we need to make sure, though, the issues on financial aid and all that are buttoned down.

MARTIN SMITH: Clifford would like to get this deal done soon.

MICHAEL CLIFFORD: What's happening is the current regulatory environment is very different than it was one year ago.

MARTIN SMITH: He's worried that the political winds in Washington are shifting.

MICHAEL CLIFFORD: You cannot assume that the DOE or the regional accrediting bodies are going to act like they did a year ago. It's extremely hostile out there toward changes. You know, we just don't want any blow-ups.

Rep. GEORGE MILLER (D-CA), Cmte. on Education and Labor: Thank you, Mr. Chairman, and thank you very much for holding this hearing.

MARTIN SMITH: Last fall, for the first time in eight years, the House Committee on Education held a hearing about the for-profit schools.

Rep. GEORGE MILLER: It seems to me the student's a bit of a pawn here.

MARTIN SMITH: With $20 billion of federal student loans and grants funneled to the industry each year, Congress is considering stepping up its oversight.

Rep. GEORGE MILLER: I'm asking what happens to the student out there?

MARTIN SMITH: They're hearing troubling stories about some of the schools' aggressive recruitment practices.

We went to talk to President Obama's new secretary of education, Arne Duncan, to get his take on the for-profits.

ARNE DUNCAN, Secretary of Education: I don't think there's anything inherently wrong with a for-profit educating students where they are providing them with a great education, where they're being honest about it, where there's value for the investment. And long term, you want to see those players, you know, do well. But where there is high-pressure tactics, where there are deceptive tactics, where there is dishonesty, we have to

challenge that in a very serious way.

MARTIN SMITH: The government has been involved with a number of lawsuits in recent years. One of the biggest was against the University of Phoenix and dealt with a rule concerning something called "incentivized compensation." It stipulates that schools cannot pay enrollment counselors based solely on the number of students they recruit.

DANIEL GOLDEN, Education Reporter, Bloomberg News: The concern is that they are bringing in students who can't succeed or graduate just so the recruiter can make more money. If you're paid based on how many people you enroll, you'll enroll pretty much anybody.

MARTIN SMITH: With no admission of wrongdoing, Phoenix avoided a trial last year by settling out of court with the government and two whistleblowers for $67 million.

A number of former students from other schools are also filing suits.

SHERRY HAFERKAMP, Graduate, Argosy University-Dallas, 2004-08: I believed a lot of lies that were told to me, and it wasn't until after the fact that I'm finding out it was anything but the truth.

MARTIN SMITH: Sherry Haferkamp was looking to get a master's degree in psychology when she talked to an enrollment counselor at Argosy University in North Dallas, Texas.

SHERRY HAFERKAMP: The guy I talked to was personable. He seemed like he really wanted to get to know me. We had a really good conversation. And then he said, "You know, instead of applying for the master's program, go ahead and apply for the doctorate program. They've got two spots available, so you better apply right now." And so I was thinking, "Heck, yeah, I'm going to hurry up and apply." Just the thought of, "Oh, my goodness, I could be a doctor in psychology. That would be great." I went ahead and I applied.

MARTIN SMITH: According to Haferkamp, Argosy told her that the degree was going to be accredited by the American Psychological Association.

SHERRY HAFERKAMP: They told me that I had nothing to worry

about and "The only reason why we're not APA-accredited is because we are new to the Dallas area."

MARTIN SMITH: In fact, Argosy Dallas never did obtain APA accreditation. Haferkamp has now joined with 17 other former Argosy students and filed a lawsuit claiming she was defrauded. In a letter to FRONTLINE, Argosy's parent company, EDMC, says Argosy Dallas continues to aspire to APA accreditation and rejects any charges of fraud.

[*www.pbs.org: Read the full letter*]

Haferkamp has since moved to Maryland, where she can't hang a shingle without an APA-accredited degree.

SHERRY HAFERKAMP: I really am at a dead end. I don't know which way to go. And the student loans are going to keep mounting and mounting and mounting.

MARTIN SMITH: Haferkamp is now sinking in over $100,000 dollars of federal student loans. This debt is almost impossible to escape.

BARMAK NASSIRIAN, Association of Admissions Officers: If you default on a federal student loan, you will be hounded for life.

MARTIN SMITH: Barmak Nassirian is a Washington representative of traditional colleges.

BARMAK NASSIRIAN: It is the most collectible kind of debt there is. It is non-dischargeable in bankruptcy. They will garnish your wages. They will intercept your tax refunds. They will sue you in court. There is all kinds- you become ineligible for federal employment. You become ineligible for any other kind of federal benefit. Increasingly, many states piggy-back those prohibitions. So it is- it is- it ruins you.

MARTIN SMITH: Everest College is part of Corinthian Colleges, Inc., one of the biggest players in the for-profit market. Everest held out the promise of a bright future to three nursing students.

MARTHA, Graduate, Everest College, 2007-08: They said that we were going to be making $25 an hour and-

SUSAN, Graduate, Everest College, 2007-08: $25 to $35, they told me. So I was, like, "OK." And they're going to find us a job. They're going to-

NORA, Graduate, Everest College, 2007-08: They're going to find us a-

SUSAN: They're going to place us because they have a lot of connections, and they're big. So it was, like, "OK, this is good. This is good."

NORA: Why shouldn't we?

SUSAN: Why shouldn't we, huh?

MARTIN SMITH: They each paid almost $30,000 for a 12-month program.

MARTHA: I got my license in December of '09, and I've been on countless interviews. And they all ask if I've ever been in a hospital, and I would have to tell them we never set foot in a hospital, ever. We went to a museum of Scientology for our psychiatric rotation.

NORA: Our pediatrics rotation, we went to a day care.

SUSAN: Oh, yeah, that was our PEDs. We went to a day care.

MARTIN SMITH: Despite graduating and getting licenses, all three women have since struggled to find jobs, claiming they didn't have the right training. In fact, they were given no practical experience in hospitals, as they say they were promised, only in nursing homes and health clinics.

We asked Corinthian Colleges about this. They responded by letter, stating that the nurses' course provided "thorough and appropriate training" and that "students were fully informed that sites were subject to change at any time."

[*www.pbs.org: Read the full letter*]

The women want their money back, and along with 10 others in their class, are considering a lawsuit.

[*on camera*] Let me ask you about these nursing students at

Corinthian.

[*voice-over*] We talked about the nurses with Harris Miller.

[*on camera*] They have $30,000 in debt.

HARRIS MILLER, Pres., Career College Association: Right.

MARTIN SMITH: What can they do?

HARRIS MILLER: Well, the government can basically wipe that out. I mean, the government has the ability to- if these- if these allegations are correct and these students were misled, the government can do a lot of things, if they're true.

MARTIN SMITH: [*voice-over*] We asked Secretary Duncan about the nurses' claims and what Miller had said.

[*on camera*] And he said if they determine that the allegations are correct, the government can wipe out their debt. Is that true?

ARNE DUNCAN: I don't know if we have the ability to wipe out their debt. And again, that's the wrong answer. The right answer is to stop that bad practice.

MARTIN SMITH: Well, clearly, that would be a good idea to stop that, but I mean, I was surprised to hear from the chief lobbyist to sort of pass this off and say, "Well, the government can wipe that out." You can't wipe that out.

ARNE DUNCAN: No, sir.

ROBERT SHIREMAN, Dpty. Undersecretary, Dept. of Education: We are very concerned about the amount of debt that students are taking on, whether that be federal student loans, as well as private loans.

MARTIN SMITH: [*voice-over*] Student debt is a big concern in Congress today, conjuring fears of a looming default crisis reminiscent of the sub-prime mortgage debacle. It's not a small matter. Outstanding student loans across all college sectors are roughly equal to America's total credit card debt, about $750 billion.

Rep. GEORGE MILLER (D-CA), Chmn., Cmte. on Education and

Labor: It sort of reminds me of where we were two years ago, with liar loans and no-doc loans in the housing market, where people started accepting people who couldn't prove their income, couldn't prove employment, but we sold them a $450,000 house.

MARTIN SMITH: But the for-profits maintain their business practices are sound and they don't have a loan default problem.

HARRIS MILLER: We have a school, a welding school, where the default rate is less than one half of one per cent. And in the GAO report, Mr Scott and his colleagues reported that they found many schools in our sector with very low default rates, including even a few in inner cities. So clearly, they're doing-

Ninety percent of the students are in adequate loan repayment. So apparently, they are finding ways to repay their loans, number one.

MARTIN SMITH: [*on camera*] You're saying 90 percent of the students are paying back their loans on time?

HARRIS MILLER: They're not- they're not in default. Right.

MARTIN SMITH: So 10 percent are in default?

HARRIS MILLER: Ten or eleven percent, the last official figure. Some are higher, some are lower, but that's the average.

BARMAK NASSIRIAN, Lobbyist, Traditional Universities: We constantly hear declarations of good news. All of the official stakeholders tout what strikes one as impressively low default rates. Well, of course, the reason is because we're not counting all of them.

In federal financial aid, because of very heavy lobbying by institutions, default is defined as non-repayment within a very narrow window of currently only two years from the first date that you enter a payment. So if you can push defaults outside of that window, they go away. They don't exist. They don't count.

MARTIN SMITH: [*voice-over*] Nassirian believes the default rate at for-profits could be as high as 50 percent. And consider it another way. According to current government figures, for-profit students are much more likely to default on their loans. They represent just 10 percent of all college students but nearly half of all defaults.

[*on camera*] They have about 10 percent of the students. They have about 44 percent of all student defaults. That sounds like there's a bigger problem than just a few bad apples.

ARNE DUNCAN: It's something we need to watch.

MARTIN SMITH: Are you?

ARNE DUNCAN: Yes, we are.

MARTIN SMITH: I mean, you've been in office now for a year. What have you done to stop this?

ARNE DUNCAN: We have some work to do, and you know, we have not- the clear answer is we haven't stopped it. We have challenged some folks. We've had some actually, I would say [*unintelligible*] we've had some pretty big financial settlements. And we're going through a process now and we're thinking through what additional steps we need to take.

MARTIN SMITH: In a cramped conference room packed with Wall Street investors and lobbyists, Department of Education regulators are attempting to negotiate new rules to try to stem the growing number of defaults. One of the most contentious is a proposed rule on something called gainful employment, which requires that upon graduation, students should be able to find employment sufficient to pay back their loans.

DAN GOLDEN, Education Reporter, Bloomberg News: It's sort of a direct test of whether for-profit colleges actually fulfill the role that they say that they serve.

ARNE DUNCAN: If you're being sold a bill of goods, if you're told you're going back to train to be a policeman and it ends up you're being trained to be a, you know, minimum wage security guard, there's a problem with that. If you're being told you're training to be a nurse and taking out loans that- you know, associated with that potential income salary and you're actually going to be just drawing blood, there's a problem with that.

MARTIN SMITH: The gainful employment test, if passed, will apply only to for-profit schools and some vocational programs at other colleges.

KEVIN CAREY, Author, Facing Up to Debt: The for-profit colleges- I think this makes them very nervous. They're worried because they know that many of their members are charging a lot of money, that many of their members have students who are defaulting en masse after they graduate. They're afraid that this rule will cut them out of the program. But in many ways, that's the point.

MICHAEL CLIFFORD: [*on the phone*] Yeah, exactly. It's the largest accrediting body, so it took the hit because it's so big. It has 1,600 schools. That would mean-

MARTIN SMITH: Back in his West Coast offices, Clifford is feeling the pressure from regulators, as well. Today he's having to calm a nervous investor.

MICHAEL CLIFFORD: You know, it's a bump in the road. And unfortunately, it's a slap in the face to George and Jennifer and the people who've been working so hard.

MARTIN SMITH: His Chancellor University, the school purchased with help from Jack Welch, has come under scrutiny.

SYLVIA MANNING, Ph.D., Pres., Higher Learning Commission: Chancellor is under a close watch. When we see a problematic institution being acquired and being changed, we put it on a very short leash.

MARTIN SMITH: Sylvia Manning is the new president of the Higher Learning Commission, the regional accreditor that oversees Chancellor. Under her leadership, the commission is taking a harder stance against accreditation buying.

SYLVIA MANNING: We've elevated the scrutiny tremendously. It is really inappropriate for accreditation to be purchased the way, you know, a taxi license can be purchased. Every so often, an institution can't or won't measure up, and accreditation is withdrawn.

MARTIN SMITH: For Jack Welch this is just the price of doing business.

JACK WELCH, CEO, General Electric, 1981-01: We're not going to stop educating people because we're afraid of some bureaucrat

nailing us with a dotted I and a crossed T. There's always a risk. You can't be afraid to go into a business because of regulation risk.

MICHAEL CLIFFORD: We're working very hard to prove that we can instill the academic rigor and quality of education for the students that the school had not been delivering for many, many years.

MARTIN SMITH: [*on camera*] Because you don't want to see that accreditation get pulled when you're-

MICHAEL CLIFFORD: Correct, but we- we-

MARTIN SMITH: -halfway down the road?

MICHAEL CLIFFORD: We won't work with a school unless the regulatory authorities want us to work with the school. I mean, Wall Street says, "Hey, we put our money up, we own this business. It's ours, and we're going to run it." The regulation community says, "These are entities that are part of the public trust. They were non-profit. You've converted them to for-profit. But they still have a public mission to educate our society." And that's where the big tug-of-war has been. but life's too short to be at war with everybody, and I don't believe the regulators are our enemies.

MARTIN SMITH: [*voice-over*] This tug-of-war between regulators and investors has put Wall Street on edge. Short sellers have entered the fray, betting education stocks will fall.

NEWSCASTER: Check out Apollo Group. After the close, the earnings came out. They were a penny better than expected, but they might face a million-and-a half in liabilities and some open ending. A report released by the Department of Education-

MARTIN SMITH: The industry is fighting hard against the regulations. Washington lobbyists have descended on Capitol Hill with donations in hand, and they are starting to have an effect. In March, 18 congressmen and women from both sides of the aisle signed a letter to Secretary of Education Duncan urging him to soften his proposed gainful employment rule change.

BARMAK NASSIRIAN, Lobbyist, Traditional Universities: It shouldn't surprise anybody that a tremendous amount of money goes into lobbying here. The one requirement here for all of the rest

of their practices to ensue is that billions of dollars of federal money flow with no accountability, no oversight, and minimal regulations. And for that to happen, they need to pay attention to Washington, and they do.

Pres. BARACK OBAMA: Every American will need to get more than a high school diploma, and by 2020, America will once again have the highest proportion of college graduates in the world.

MARTIN SMITH: Soon after he took office, President Obama pledged as much as $12 billion to expand America's community colleges. This year, after a fierce debate in Congress, the amount was slashed to just $2 billion. It appears that if the president wants to get more Americans to go back to school, he's going to need the for-profit sector.

DAN GOLDEN: The Obama administration realizes that the for-profit colleges are going to have to continue to grow in order for the administration to meet its college graduation goals. They're almost getting to the point where they're too big to fail. There'd just be too many students left out on the street with nowhere to go.

MARK DeFUSCO, Dir., University of Phoenix, 1994-02: What happens to these students? Where do they go next? They're certainly not going to go to the community colleges. They're certainly not going to be loads of classrooms available at the state schools. They're cutting back. The for-profits make it easier for them to actually get what they need. So why shouldn't they make money on it? I mean, ultimately, that's part of what the American dream is all about.

MARTIN SMITH: [*on camera*] But is education a business?

MARK DeFUSCO: I believe so. Listen, I'm happy that there are places in the world where people sit down and think. We need that. But that's very expensive, and not everybody can do that. And so for the vast majority of folks, who don't get that privilege, then I think it's a business.

MARTIN SMITH: [*voice-over*] Just last week, a senior Department of Education official promised more scrutiny of for-profit schools. Their stocks fell. But in Los Angeles, Michael Clifford's Dream Center College is accepting students for the fall of 2010. For now, it remains a non-profit. A plan to build a for-profit on-line program

has not been finalized.

Meanwhile, Clifford's busy expanding InterAmerican College. He's renamed it United States University.

MICHAEL CLIFFORD: [*on the phone*] Hello? Oh, I'm right in the middle of a meeting, but you're so important, I had to drop everything! [*laughs*] Very difficult, very difficult, and they want-

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ANNOUNCER: There's more to explore on our Web site, where you can watch this program again on line, read the extended interviews, more on for-profit universities, on-line education and the issue of gainful employment, and more. Then join the discussion at PBS.org.

ANNOUNCER: Next time on FRONTLINE/World: In southern Africa, it was supposed to harness the energy of children to bring fresh water to their villages. Now, five years later-

- This play pump hasn't produced any water for six months.

ANNOUNCER: What went wrong with the play pump?

- We would all love there to be a magic bullet. That's not the way it works.

ANNOUNCER: The politics of trying to help. This story and more on the next FRONTLINE/World.

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